Timber Income Tax

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State Income Taxes

Chapter 15
Overview

- State tax departments have an incentive to cooperate with the IRS – they share information and piggy back on federal returns.
- State tax departments who track Federal rules may find up to 90% of amounts on federal returns that are omitted on state returns.
- Most States have limited resources for audit and tax compliance, and most have constitutional provisions for a balanced budget.
Income Taxes in the South
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- Deductions for federal income taxes, tax rate-schedule interaction, standard deductions and exemptions were most important for determining state income tax.
- At 8 percent, LEVs ranged 19% to 79% below potential with good tax management as capital gains, expenses, depletion, ITC and reforestation, are omitted.
- See also FLA update of southern provisions.
State Income Taxes in the United States

- State income taxes increase the total tax levy on timber sale incomes
- Major changes in State taxes occurred following the 1986 Tax Reform Act
- Nathan Smith updated State tax provisions and impact on forestry for the Northeast and Midwest, West, and South for the SAF regional journals
Investment Analysis

- Maximum effective long-term capital gains rates ranged from 3.92% to 8.25%
- As these rates are adjusted they are added to the Federal rate to get a Federal-state effective rate for after-tax returns
- Rates after adjustment are sufficient to affect competitive investment returns.